

---

**Ministry of Commerce and Industry  
Government of India  
New Delhi**



---

# **EXPORT PROMOTION OF CONSULTANCY AND MANAGEMENT SERVICES FROM INDIA**

---

**March 2006**

---

**Prepared by**

**Consultancy Development Centre  
India Habitat Centre  
Core - IV B, 2nd Floor, Lodhi Road  
New Delhi 110003**



**Consultancy Development Centre**  
Supported by DSIR, Ministry of Science & Technology

## **E EXECUTIVE SUMMARY**

### **E.1 EXPORT POTENTIAL OF MANAGEMENT & ENGINEERING CONSULTANCY**

#### **Introduction**

- India has been globally recognized for its fast paced development. The service sector has been growing at a fast pace and now contributes more than 50% to the GDP.
- Management consultancy includes services contracted for and provided to organizations by specially trained and qualified persons, who assist in an objective and independent manner, the client organization to identify management problems, analyze such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions.
- Engineering consultancy is defined as application of physical laws and principles of Engineering (The application of scientific principles to practical ends as the design, construction, and operation of efficient and economical structures, equipment and systems) to a broad range of activities in the areas of construction, manufacturing, mining, transportation and environment.

#### **Types of Consultancy Organisations**

- Since the origin of consultancy, the firms have been characterized by diverse functional areas such as engineering, accounting, law, or banking. Consulting organizations are generally classified as Management consultancy organizations, Engineering consultancy organizations and Others which include Legal consultancy organizations, Socio Economic consultancy organizations and Financial consultancy organizations.

#### **Clients**

- Most consultancy assignments originate with the request from the client. A useful technique for identifying the real decision-maker early in the project is to propose several reasonable outcomes for the client's problem.
- The response to these reasonable ideas indicates whether or not the consultant is dealing with the real client, the decision-maker. In consulting sector, the clients are broadly classified into different categories i.e. Government institutions, funding agencies (Bilateral Agencies and Multilateral Agencies), corporate clients and others like Non Government organisations.

#### **Drivers for Consulting Services**

- The demand for consulting services tends to increase with the economic development of the country. The requirement for consultancy services stems from a diverse range of clients, largely governed by the large corporate sector and the Government in various forms, viz, country, institutions, bilateral / multilateral agencies

#### **Indian Consultancy Industry**

- After Independence, the Indian Government had focused on investment in core industrial sector and infrastructure. The investment in these sectors attracted various construction and engineering companies to explore the business opportunities and contribute their expertise in these sectors. Domain experts were required who could provide their core skill and competence in designing and building the core industry, dams, roads, buildings etc.
- Over the years, as the Indian industry started maturing, the Indian consulting industry also started expanding, not only in terms of size, but also in terms of the service offerings. Over the period, specialist consulting advice was being sought by clients in India and this opened the opportunity for a number of specialist organizations to draw on their specialist knowledge base and resources to meet the demand for specialist consulting services.

### **Size of the Consultancy sector in India**

- The development of consultancy capabilities and business is directly proportional to growth in economic and industrial development. Due to the nature of the industry, getting accurate estimates of its size is difficult. It is estimated that the consultancy business in India engages about 100,000 persons in about 5000 consulting firms. According to estimates, the current size of the consulting industry in India is about Rs. 10,000 crores including exports and is expected to grow at a CAGR of approximate 25% in the next few years.

### **Sectoral Coverage / Services**

- The nature of consultancy services varies in its content and extent. The Reserve Bank of India classified management and engineering services under other Business Services as per WTO classification which is indicated in their publication 'India's invisibles'. Given the recent spurt in contributions from the services sector, efforts are underway to provide accurate estimates of the services industry size, however such efforts may not offer the expected results, since the consulting industry by nature is very diverse and encompasses a wide array of services and sectors. Many of the services and sectors overlap and it is not possible for accurate estimation.

### **Export Performance of the Indian Consulting Industry**

- An analysis of the consultancy contracts secured by Indian project overseas has been carried out by Exim Bank of India. As per the analysis, the geographical dispersion of contracts secured during 1995 – 96 to 2000 – 01 indicates that consultancy contracts were secured largely in West Asia which accounted for 39% number wise and 46% value wise followed by South East Asia and Pacific & South Asia. South East Asia constituted 22% both by number and by value whereas South Asia was 18% number wise and 16% value wise. According to the 2002 data of the Federation of Indian Export Organizations (FIEO), India's share in global trade in services was about 1.3%. India's share of consultancy exports is about 0.5% of global trade in services.

### **Competitiveness of Indian Consultancy Exports**

- International firms are larger in size and operate across countries which give them market access to these countries and also the opportunity to tap the market for consulting business. However Indian consulting organisations are growing with great pace to compete with international organisations
- Local presence in the countries benefits multinational organisations in liaising with clients in these countries with sustained business development resulting better prospecting record with large expenditure on business development when compared to Indian firms who largely depend on proactive business development in these countries at low business development cost.

### **Government Initiatives**

- In the recent period, the trade policy in India reflects the strategic importance of India's comparative advantage of trade in services. The services sector has been identified as a thrust sector for trade policy. The Foreign Trade Policy, 2004 – 09 has announced the setting up of Services Export Promotion Council to map opportunities for key services in import markets and to develop strategic market access programme.
- Some of the key initiatives of the government in promoting exports of consultancy services are through Market Development Assistance (MDA), Market Access Initiative (MAI) scheme, proactive EXIM Policy and EXIM Bank schemes.
- Government also provides exemption on service tax for export of consultancy services. However due to lack of clarity in the provisions in the present notification, consultancy export may be affected.

- Income tax exemption under section 80 'O' need to be reinstated to enhance consultancy export.

### **Strengths and Weaknesses of Indian Consulting Industry**

- The major strengths of Indian consulting organizations include professional competence, low cost structure, diverse capabilities, high adaptability and quick learning capability of Indian consultants
- The major weaknesses of Indian consulting organizations, which has hindered the export growth of consulting sector in the country, are low quality assurance, low local presence overseas, low equity base, lack of market intelligence, low level of R&D

### **Consulting Opportunities in Commonwealth of Independent States (CIS)**

- After the break-up of erstwhile Union of Soviet Socialist Republics (USSR), the Commonwealth of Independent States (CIS) was created in December 1991. The CIS unites the countries of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. Emerging from the controlled soviet economy, the CIS countries are united in their quest for economic development.
- Considering the consulting opportunities which would follow economic development initiatives in the region, this region has been selected for a study of the export potential for consulting services. For purpose of this study, two countries i.e. Kazakhstan and Turkmenistan have been selected and studied in details. The country profiles of both the countries are given in the following section.

#### **Kazakhstan**

- Kazakhstan is a member of the CIS and an erstwhile member of the USSR. The capital of the country is Astana. Kazakhstan was one of the earliest and vigorous reformers among the countries of the former Soviet Union. In 2003 Kazakhstan's estimated GDP was US\$30.8 billion, an increase of 9 % over 2002. Per capita GDP was US\$1,794. Services contributed 54.8 %, industry 37.8 %, and agriculture 7.4 % to the GDP in 2004. According to 2004 estimates, the state revenues are US\$8.67 billion and expenditure is US\$8.968 billion. Kazakhstan's current rate of inflation is 6.9 %, slightly higher than the 2002 rate of 6 %.
- The sectors, which show maximum potential for consultancy services in Kazakhstan, are Geology and Mining Transportation, Telecommunication, Tourism Sector, Urban Development Sector, Health Sector and Energy Sector.

#### **Turkmenistan**

- Turkmenistan, southwest of the former Soviet republics of Central Asia, is located on the eastern shore of the Caspian Sea.
- In the early 2000s, the contribution of Turkmenistan's state-run agriculture sector to Gross Domestic Product (GDP) has increased under close state supervision
- The sectors which show maximum potential for consultancy services in Turkmenistan, include Geology and Mining, Construction, Health, Urban Development and Agriculture.

### **Consulting Opportunities in Southeast Asia Region**

- Southeast Asia is located on the equator, which means almost the entire region falls within the humid tropics and covers an area of about 4,100,000 square kilometers.
- For purpose of this study, two countries i.e. Indonesia and Vietnam have been selected and studied in detail. The country profiles of both the countries are given in the following section.

### **Vietnam**

- Vietnam is located in Southeast Asia, bordered by the Gulf of Tonkin and the South China Sea to the east, China to the north, Laos and Cambodia to the west, and the Gulf of Thailand to the south.
- In 2004, Vietnam's GDP was US\$227.2 billion. The national GDP has shown impressive growth and Vietnam is one of the fast growing economies in the region. Vietnam's economy is expanding at an annual rate of more than 7 % and is one of the fastest growing in the world. Agriculture had the dominant contribution in the overall GDP of the country. Its contribution has progressively decreased over the years with manufacturing taking the lead followed by services and agriculture.
- The sectors, which show maximum potential for consultancy services in Vietnam, are Manufacturing (textile and garments), Energy (Power), Geology and Mining (Oil and gas), Agriculture and Rural Development, Transportation (Highways) and Tourism.

### **Indonesia**

- Indonesia is located in Southeast Asia. It lies between the Indian and Pacific oceans and between the continents of Asia and Australia, south of Malaysia and the Philippines, and northwest of Australia.
- In 2004, the GDP was US\$ 827 billion with average annual growth of around 5 %. Over the last three years, Indonesia has made remarkable progress in achieving macroeconomic stability, in reducing the economy's vulnerability, and in restoring external viability.
- The sectors, which show maximum potential for consultancy services in Indonesia, include Geology and Mining (Oil and Gas), Manufacturing (Petroleum, Pharmaceuticals), Agriculture and rural development, Transportation (Ports and Railways) and Telecommunication.

### **Consulting Opportunities in East African Region**

- East Africa includes Kenya, Tanzania, Uganda, Rwanda, Ethiopia and Burundi. Geographically, the region is well known for its magnificent physical features. The region is witnessing economic development initiatives at various levels in a number of countries. Considering the potential for consulting opportunities Ethiopia and Uganda have been selected for the study. The country profiles of both the countries are given in the following section.

### **Uganda**

- Uganda is located in the heart of Sub Saharan Africa with one fifth of its area covered with fresh water (Lake Victoria).
- In 2004, the GDP of Uganda was US\$ 7.7 billion, with a real GDP growth of 5.9%. Sector wise contribution to the GDP in 2004 was 38.8% in Agriculture and allied sector, 19.5% in Industry and 41.7% in services.
- The sectors, which show maximum potential for consultancy services in Uganda, are Infrastructure, Energy, Education & IT enabled services, Agriculture and Rural Development, Manufacturing sector, Health and Demography, Geology and Mining, Transportation, Energy and Information Technology.

### **Ethiopia**

- Ethiopia is located in eastern Africa in the southern Red Sea region. It borders Sudan on the west, Eritrea on the north, Djibouti and Somalia on the east, and Kenya on the south.
- The sectors, which show maximum potential for consultancy services in Ethiopia, are Agriculture and Rural Development, Tourism, Manufacturing sector, Geology and Mining, Transportation sector, Energy, Water Management, Telecommunication, Construction and Health.

## Recommendations and Action Plan

- Growth potential for consulting services is envisaged to be high in South East Asian and East African countries as these countries are pursuing fast track development plans across diverse sectors. In the CIS countries, although all of them have development agenda, they are comparatively not as fast paced as the east African countries and the development potential is limited to a few sectors. The key strategies and action able plans are broadly categorised into four following categories
  - Market understanding includes conducting field based exploratory studies in the target markets, creation of database of local consultants, setting up the mechanism for gathering market intelligence
  - Promotion includes organizing “Consultancy Trade Marts (CTM)” in the target countries, organizing delegations of Indian industry to target countries, creating awareness of Indian consulting capabilities within the Indian Embassies in these countries, Tax benefits, identify and empower a nodal agency for sustainable promotion of Indian consulting business and developing closer ties with bilateral and multilateral institutions
  - Focused marketing includes strategic alliances with local consulting firms, creation of Consultancy Development Fund (CDF) and merger & acquisition
  - Quality assurance includes appointment of a regulator for quality assurance.

## E.2 ENGINEERING DESIGN OFFSHORE SERVICES

### Introduction

- Engineering Design offshore Services transfers ideas and designs into functional components that can be manufactured and marketed in a short time period. The common composition of team for Engineering Design offshore Services include Design Leaders, Design Engineers, Program Managers, Detailers, Technicians, Specialist in Tooling and Die design & manufacturing.
- With this trend, Indian engineering design consulting organisations are increasingly looking to potential locations like USA, UK and Japan. Keeping this in view, these three countries have been identified for studying the export potential of engineering design services.

### Engineering Design offshore: The concept

- The engineering design offshore requires the understanding of international projects and availability of IT infrastructure and engineering manpower.

### Clients

- The Clients for the engineering design offshore consultancy services include large international companies operating in the sectors of Engineering services, Automobile & manufacturing, IT and software who directly outsource their design and development requirements to have a competitive advantage of cost & benefits of different time zones.

### Size of the Indian Engineering Design Services

- The engineering services organisations have keen interest to capture the design services from overseas due to their expertise in segments such as automotive, aerospace, engineering designs etc.
- The total worldwide revenues for the engineering services are estimated at about \$170 billion.
- International Development Centre estimates that the worldwide market for outsourced engineering services was worth \$69.8 billion in 2001, with a forecast to grow at a five-year compounded annual growth rate (CAGR) of 12.2 per cent, to \$123.9 billion in 2006.

- NASSCOM assesses that outsourced engineering services to India have a market potential of \$7-12 billion. The present value of work undertaken by Indian vendors in ET services was about \$500 million.

### **Services offered**

- Almost all design services such as preparation of component drawings & designing, operations process parameters, detailed engineering designs & drawings can be outsourced to India.

### **Competitiveness of Indian organizations**

- The five countries where major services are being off shored are India, Philippines, Canada, Ireland, and Russia. While Canada and Ireland are on the high cost side, Philippines, Russia, and India are the low cost end.

### **SWOT Analysis of Offshore Services**

- The strength of offshore industry is its cost effectiveness, large pool of trained engineers, well established engineering industry, time zone advantage for real time solutions, good IT infrastructure, reputed affordable IT education, English-speaking professionals, Government Incentives, Influx of talent from other educational streams.
- The weaknesses of offshore industry is the low promotion of Indian capabilities ,lack of local presence of the Indian engineering industry, low level of knowledge on international standards and codes, non-adherence to contract schedules and deliverables, low lifestyle image in India, data security etc.
- The opportunities of offshore industry are India's edge in outsourcing market with its ability to combine skills with cost. India has a long history in the sector of automobiles and aerospace. These are the sectors where India has demonstrated its manufacturing capabilities. In addition, there is the presence of the local talent pool in the manufacturing sector. India perceives a situation where cross-functional teams — IT engineers understanding design capabilities and plant and process engineers trained in IT— will operate in this segment.
- The threats of offshore industry are China, which is likely to emerge as a strong competitor for India. China has demonstrated its capabilities as an offshore destination for manufacturing of automotives, cellular phones and consumer durables. European clients still prefer European consultants due to the locational advantage. The challenge faced by Indian companies operating in the engineering service markets is trained talent in the sector. Since the sector requires some practical knowledge which is normally not imparted by colleges, it is up to the various companies to train these individuals who are already well-versed in domain knowledge.

### **Industry Drivers**

- The major drivers which are promoting offshore services from India include growth in Indian economy, excellent communication facilities, abundant Indian human resources, excellent advancement in outsourcing technologies, cost effectiveness and adherence to standard quality.

### **Engineering Outsourcing from United States of America**

- US have market-oriented economy, where private individuals and business firms make most of the decisions, and the federal and state governments buy the required goods and services predominantly in the private marketplace.
- U.S. foreign trade and global economic policies have changed direction dramatically during the several years that the United States has been a country. The US economy though a lot better than other economies, faces some other long-term challenges.
- Outsourcing of engineering services from U.S. to low cost countries has been going on for many years, particularly in the oil and gas industry. Out sourcing services from US alone is estimated at US\$ 1.6 trillion. The construction sector has a share of 15%.

- The outsourcing includes a wide range of services including design and architecture. Other services that lend themselves to outsourcing continue to be those that are of repetitive and data processing nature, such as Computer Aided Drafting (CAD), mapping and GIS.
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Electronic design Automation, Automotive and Infrastructure.

### **Engineering Outsourcing from United Kingdom**

- The United Kingdom is the world's leading trading power and financial centre. The economy of United Kingdom is the strongest in Europe and it was this relatively good economic performance that had complicated the government's efforts to join the European Economic and Monetary Union (EMU).
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Aerospace, Construction, Automotives, Chemicals, Power, Oil & Gas and Engineering.

### **Engineering Outsourcing from Japan**

- A member of OECD, Japan is the second largest economy in the world, with a per capita Gross National income of US\$ 34510 (2003). In terms of purchasing power parity, manufacturing has been the basis of Japan's economy since the 1960s and today accounts for just over 20% of current-price GDP.
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Telecommunication, Microelectronics, Biotechnology, Information Communication Technology

### **Recommendations and Action Plan**

- The overseas companies have assessed that they can improve their bottom line further by taking advantage of lower labour costs through offshore activities. A broad spectrum of opportunities is available to Indian companies providing services in areas of engineering design, development and delivery of specialized components; offshore product development opportunities.
- The tax benefits available to IT firms should also be extended to engineering design offshore firms to build synergy between the two which would enhance export of engineering design services.
- The key strategies and action able plans are broadly categorised into four following categories
  - Market understanding includes detailed field based studies of the identified sectors in the target countries
  - Promotion includes delegations / mission to target countries, Tax benefits and identification & strengthening of a nodal agency for promotion of Indian engineering capabilities
  - Focused marketing includes strategic alliances with local consulting firms, negotiate against trade barriers, credit facility and support creation of world-class infrastructure facilities in the form of Engineering Offshore City which could be an integral part of existing IT Parks
  - Quality assurance includes recognition of Indian qualifications.